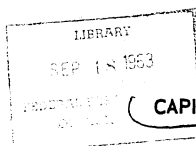


H. 13
No. 121

September 11, 1963.

CAPITAL MARKET DEVELOPMENTS ABROAD

- I. Canada
II. Nine Charts on Financial Markets Abroad

I. Canada: Money and Capital Market Developments in August

The tightening experienced in Canadian capital markets from mid-June to early August continued until late in the month but market yields on government securities tended to stabilize after Labor Day (see Table 1). A rise in the Bank of Canada's discount rate on August 11 from 3-1/2 to 4 per cent came toward the end of this upward movement in market rates. The Bank of Canada which had lost foreign-exchange reserves in June and July (in the face of encouraging foreign-trade returns for the first seven months of 1963) reported further losses of \$30.5 million for August. Canadian capital and foreign exchange markets were adversely affected by the uncertainties associated with President Kennedy's interest-equalization tax proposal. After that announcement, new issue activity was materially reduced in Canada and flotations of Canadian bonds in New York were temporarily halted. During August, Canadian stock-market prices remained sluggish.

Table 1. Canada: Recent Yields on Government Securities, 1963
(in per cent per annum)

	Actual Yields				Changes from		
	June 12	Aug. 7	Aug. 28	Sept. 4	June 12 Aug. 7	Aug. 7 Aug. 28	Aug. 28 Sept. 4
Treasury bills:							
3-months	3.19	3.52	3.70	3.75	+0.33	+0.18	+0.05
6-months	3.30	3.78	3.95	3.98	+ .48	+ .17	+ .03
Bonds:							
1964	3.62	3.95	3.95	3.95	+ .33	.00	.00
1965	4.07	4.52	4.64	4.56	+ .45	+ .12	- .08
1967-68	4.07	4.34	4.48	4.45	+ .27	+ .14	- .03
1975-78	4.88	5.18	5.26	5.26	+ .30	+ .08	.00
1996-98	4.90	4.99	5.06	5.06	+ .09	+ .07	.00

Money market. The yield on three-month Canadian Treasury bills, which had risen from a low of 3.19 per cent on June 13 to 3.41 per cent by late July, continued to rise in August, and closed the month at 3.70 per cent. (See Table 1 and Chart 1.) The increase in yields on the six-month bill was somewhat greater, aggregating 65 points from the June low. In both

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cases, the major portion of the increase came before, rather than following, the rise in Bank of Canada discount rate on August 11. The uncovered differential of Canadian over U.S. yields tended to widen.

Prime Canadian finance company paper, which had remained at about 3-5/8 per cent for 90-day funds throughout most of June and early July, had climbed to 3-7/8 by late July. Further increases were registered in August, to a level of 4-1/4 per cent. The corresponding rise in prime commercial paper of U.S. finance companies from 3-3/8 per cent throughout July to 3-1/2 per cent in early August created yield differentials in favor of Canadian paper that exceeded the forward discount on the Canadian dollar.

Foreign exchange. The Canadian dollar fell below par on July 30, and the spot rate showed no strengthening tendency throughout August, closing the month at 92.36 U.S. cents. (See Chart 8.) The three-month forward Canadian dollar shifted from a premium to a decided discount immediately following announcement of the U.S. "interest-equalization" tax proposal; the discount remained within a range of about 1/5 - 2/5 per cent per annum throughout the month. The forward discount was sufficient for the most part to offset the uncovered premium on Canadian over U.S. three-month Treasury bills; consequently, the covered yield spread was negligible or favored New York during most of the month (See Table 2). Both spot and forward rates improved somewhat immediately after Labor Day.

A further loss of \$30.5 million in official reserves for the month of August brought the cumulative loss over the past three months to \$241.5 million. The full decline since May, when reserves reached the peak level of \$2,712 million, was just under 9 per cent by the end of August.

Table 2. Canada: U.S. covered Interest Arbitrage for
Three months Treasury Bills
(per cent per annum)

	July		August					Sept.
	12	26	2	9	16	23	30	6
Canadian bill	3.35	3.38	3.43	3.54	3.63	3.70	3.70	3.75
U.S. bill	<u>3.19</u>	<u>3.18</u>	<u>3.21</u>	<u>3.27</u>	<u>3.31</u>	<u>3.35</u>	<u>3.38</u>	<u>3.32</u>
Spread in favor of Canada	+0.16	+0.20	+0.22	+0.27	+0.32	+0.35	+0.32	+0.43
Forward Canadian dollar (3-month)	<u>0.00</u>	<u>-0.20</u>	<u>-0.20</u>	<u>-0.34</u>	<u>-0.20</u>	<u>-0.34</u>	<u>-0.34</u>	<u>-0.34</u>
Differential in favor of Canada	+0.16	0.00	+0.02	-0.07	+0.12	+0.01	-0.02	+0.09

Bond market. Yields on Government of Canada medium and long-term issues, which had risen 10-27 basis points in the course of July, extended their advance though generally at a somewhat reduced pace during August. Between July 3 and August 28 bond yields rose in the range of 18-47 basis points. Yields on provincial and municipal issues climbed during this period about 38 to 47 basis points but yields in the private sector on public utility and industrial bonds moved up somewhat less (See Table 3).

During the month, more than \$500 million of new Government of Canada issues were sold, and almost \$250 million of new Provincial issues (See Table 4). Total sales of new Canadian bonds for 1963 through September 2 are estimated at \$7.9 billion, some 24 per cent higher than a year ago, with provincially guaranteed and corporate issues showing the largest rate of increase. Since early August, however, new offerings of bonds in the United States payable in U. S. dollars have been negligible.

Table 3. Canadian Bond Yield Averages

	Aug. 31 1962	June 28 1963	July 31 1963	Aug. 30 1963
10 Provincials	5.86%	5.29	5.44	5.67
10 Municipals	5.98	5.41	5.59	5.88
10 Public Utilities	5.62	5.42	5.50	5.61
10 Industrials	5.67	5.26	5.43	5.49
40 Bond Yield Averages	5.78	5.34	5.49	5.66

Source: McLeod, Young, Weir & Co.

Table 4. Sales of New Canadian Bonds
(in million dollars)

	1 9 6 3		1 9 6 2	
	to Aug 5	to Sept. 2	to Aug. 6	to Sept. 3
Govt. of Canada	5,370	5,890	4,605	5,085.0
Provincial	91.8	338.6	284.8	292.3
Prov'l Guaranteed	604.7	674.7	232.8	243.8
Municipal	294.4	310.0	298.5	319.9
Corporation	620.3	671.8	368.8	396.0
Total	6,981.2	7,885.0	5,789.8	6,337.0
of which:				
Long term <u>a/</u>	2,417.2	2,796.0	1,961.8	2,019.0

a/ over one year.

Sources: A. E. Ames & Company, Weekly Bond Sales Summary.

The rise in Government bond yields since mid-June has been accompanied by continuing sales by the general public aggregating some \$370 million. (See Table 5.) These sales by private holders have been offset by substantial purchases of bonds by the Bank of Canada (\$177 million) and by the chartered banks (\$116 million). Sales of Treasury bills by the Bank of Canada and the chartered banks since late July have contributed to recent rises in Canadian bill rates.

Table 5. Canada: Net Purchases (+) or Sales (-) of Government Securities
(\$ million, par value)

	June 19 - July 24		July 24 - Sept. 4	
	Treasury	Other	Treasury	Other
	Bills		Bills	
Bank of Canada	+32	+118	-74	+59
Chartered Banks	-38	+ 97	-74	+19
Government Accounts	+52	- 5	+26	+11
General Public	-45	-257	+27	-113
Change in Total				
Outstanding		-47		-119

Stock market. The Dominion Bureau of Statistics index of industrial stock prices, which had declined 3-4 per cent immediately following the Canadian Budget Message of June 13 and again after the U.S. policy announcements of mid-July, increased only moderately in August (See Table 6). By the end of the month it had not quite regained the level of early April 1963, while the New York Standard and Poor's Industrials index had registered a 6 per cent increase. The President of the Toronto Stock Exchange announced the establishment of a separate Foreign Market, to commence operations on August 22, within which the Toronto Exchange would provide special facilities for the trading of Canadian stocks between American buyers and American sellers.

Table 6. Canadian and U.S. Stock Prices, June-August 1963

	J u n e		J u l y		A u g u s t				
	13	20	11	18	1	8	15	22	29
DBS 76 Industrials	140.1	135.3	135.9	130.3	129.8	129.9	131.5	130.7	131.8
New York Standard and Poor 425 Industrial a/	73.7	73.0	73.3	72.2	72.4	73.5	74.5	74.9	75.6

a/ Average for week ended Friday.

Bank Loans and Bank Liquidity. Chartered bank holdings of insured mortgages, provincial, municipal and corporate securities, as well as general loans outstanding changed little between July 31 and August 28, 1963 (See Table 7). Holdings of Treasury bills alone fell \$113 million, while loans

to grain dealers were \$80 million lower and to instalment finance companies were down \$53 million. Partially offsetting these declines in assets was a combined increase of \$79 million in Bank of Canada notes and deposits, as the public reduced its currency holdings. On the liabilities side, personal savings deposits remained practically unchanged, but Government of Canada deposits were down \$168 million.

The average liquidity of the chartered banks was somewhat reduced during August. The average cash reserve ratio declined from 8.13 per cent in July to 8.10 per cent in August, while the average liquid asset ratio fell from 17.84 to 16.96 per cent, the lowest level since September 1962.

Table 7. Canadian Chartered Banks: Selected Assets and Liabilities
June-August 1963
(million dollar or per cent)

	June	July	Aug.	Change during mo.	
	<u>30</u>	<u>31</u>	<u>28</u>	<u>July</u>	<u>August</u>
1. Reserves <u>a/</u>					
Cash	1158	1172	1188	+14	+16
Liquid Assets	2645	2571	2488	-74	-83
2. Reserve Ratios <u>a/</u>					
Cash	8.10	8.13	8.10	+.03	-.03
Liquid Assets	18.50	17.84	16.96	-.66	-.88
3. General Loans	6734	6917	6914	+183	- 3
4. Other Assets					
Treas. Bills	1318	1280	1167	-38	-113
Govt. Bonds	2475	2529	2545	+54	+ 16
Total Govt. Sec's.	3793	3809	3712	+16	- 97
5. Personal Savings					
Deposits	8364	8434	8433	+70	- 1
Total Can. dollar Deposits	14,750	14,889	14,415	+139	-474

a/ Monthly average.

Europe and British Commonwealth Section.

INTEREST ARBITRAGE, UNITED STATES / CANADA

Thursday figures

Per cent per annum

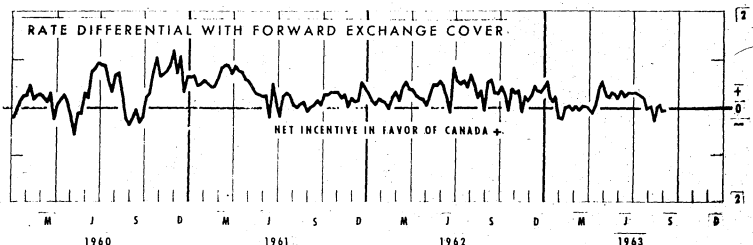
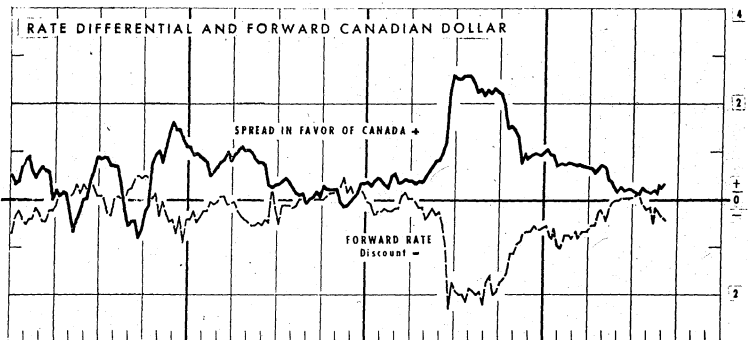
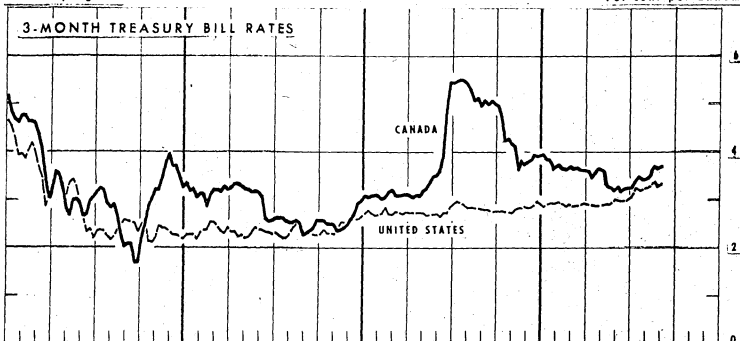


Chart 2

INTEREST ARBITRAGE, NEW YORK/LONDON

Friday figures

Per cent per annum

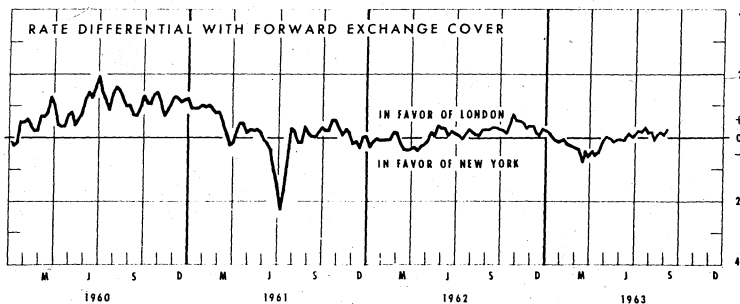
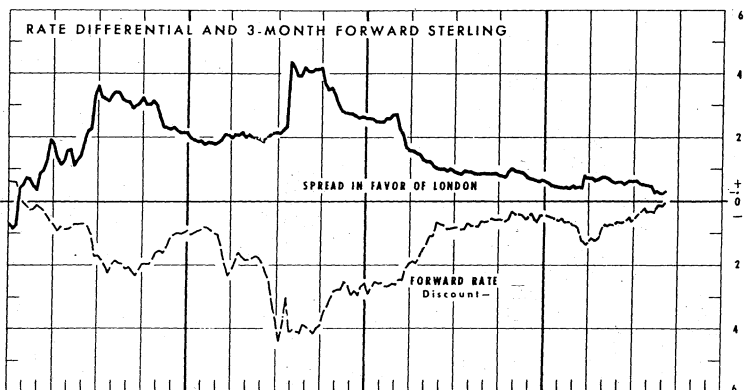
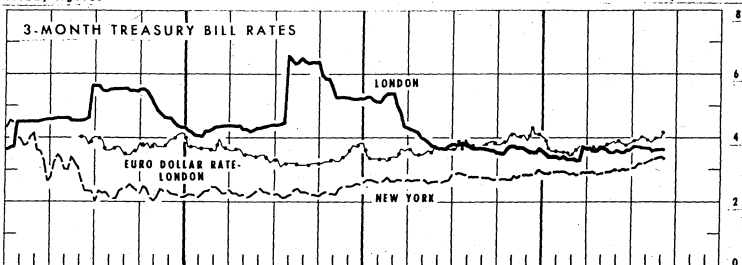
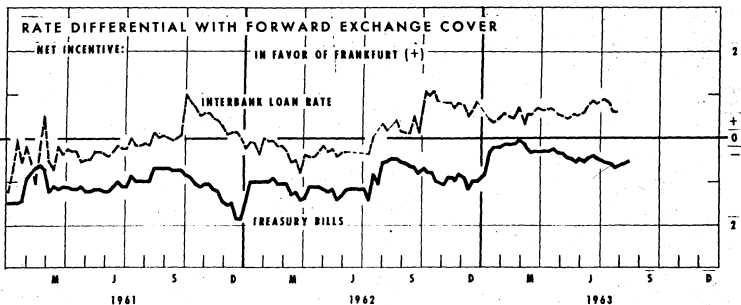
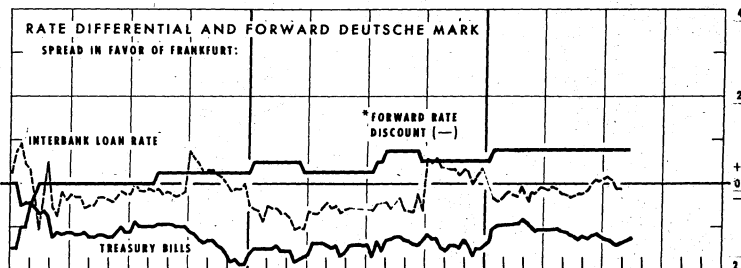
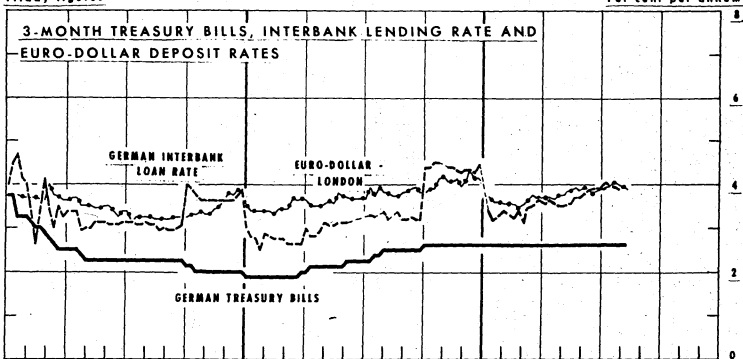


Chart 3

INTEREST ARBITRAGE FOR GERMAN COMMERCIAL BANKS

Friday figures

Per cent per annum



* Note: Special forward rate available to German commercial banks

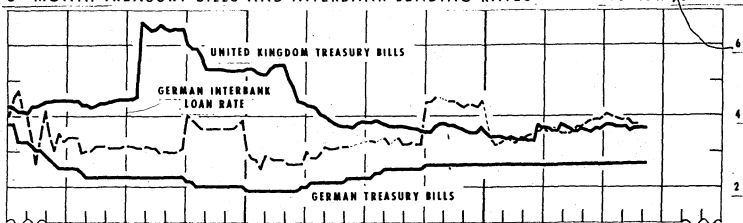
Chart 4

INTEREST ARBITRAGE, FRANKFURT / LONDON

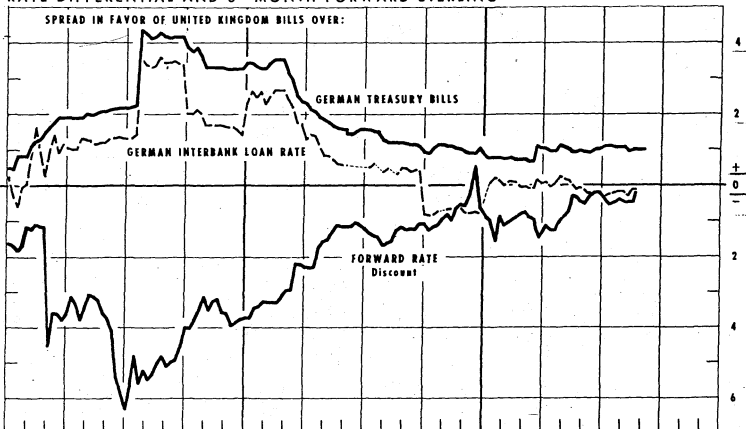
Friday Figures

3-MONTH TREASURY BILLS AND INTERBANK LENDING RATES

Per cent per annum



RATE DIFFERENTIAL AND 3-MONTH FORWARD STERLING



RATE DIFFERENTIAL WITH FORWARD EXCHANGE COVER

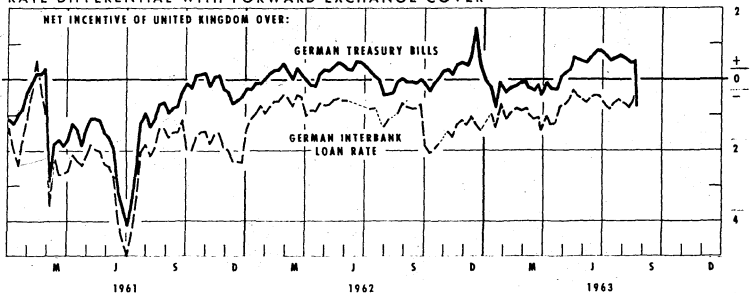
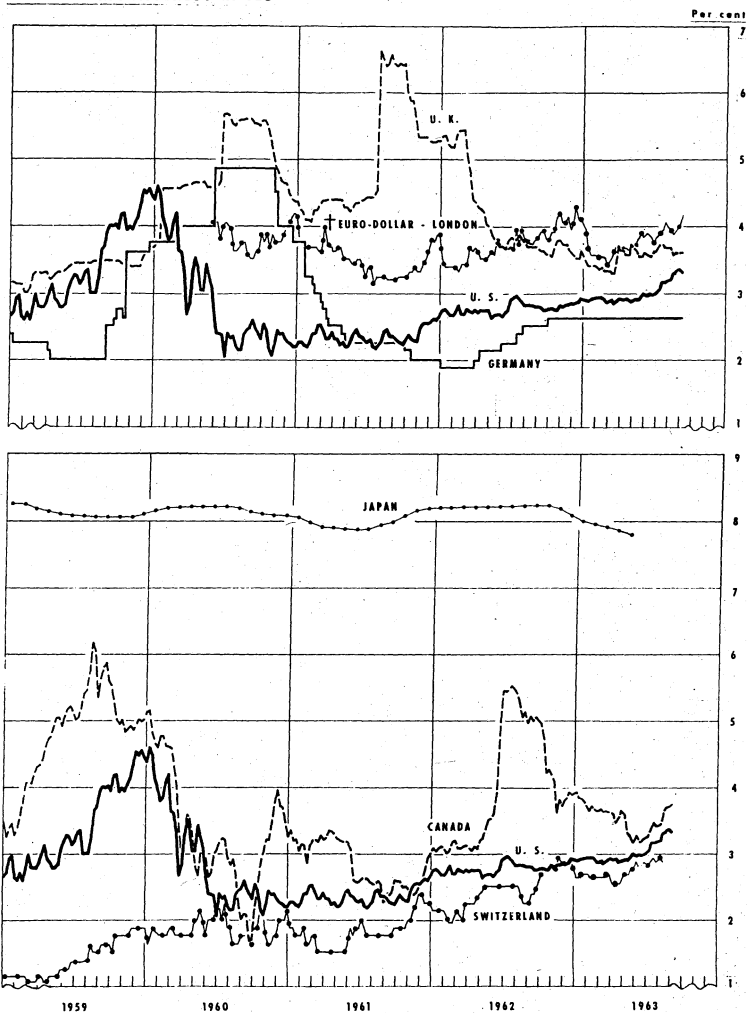


Chart 5
SHORT-TERM INTEREST RATES *



* 3-month treasury bill rates for all countries except Japan (Average rate on bank loans and discounts)
and Switzerland (3 month deposit rate)

† 3-month rate for U.S. dollar deposits in London

Chart 6

LONG-TERM BOND YIELDS

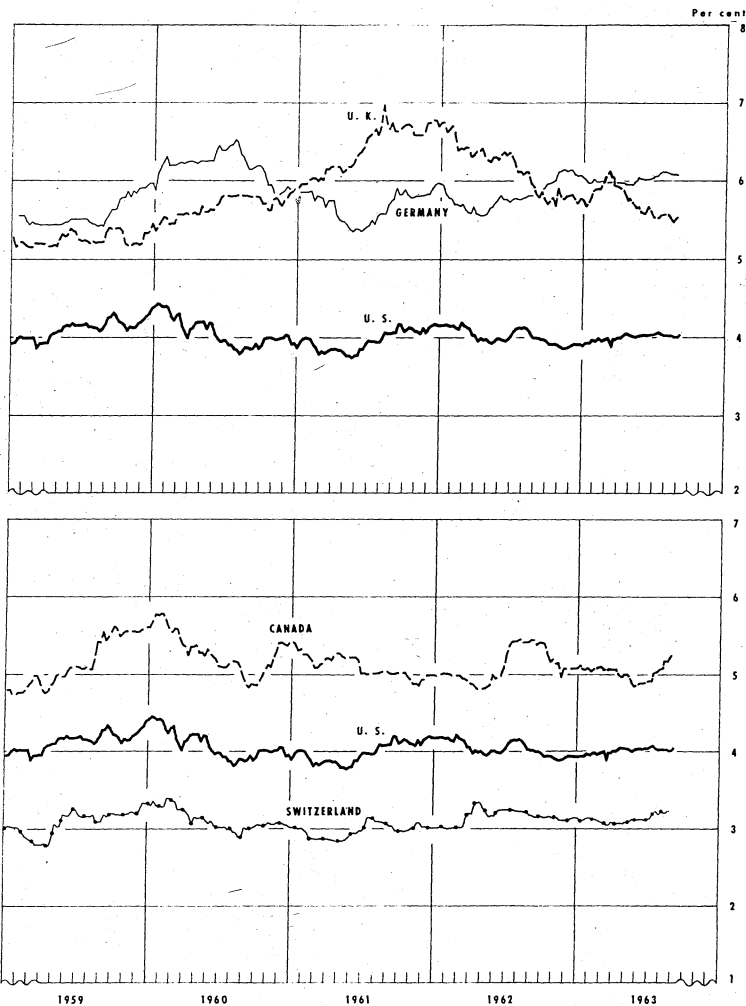
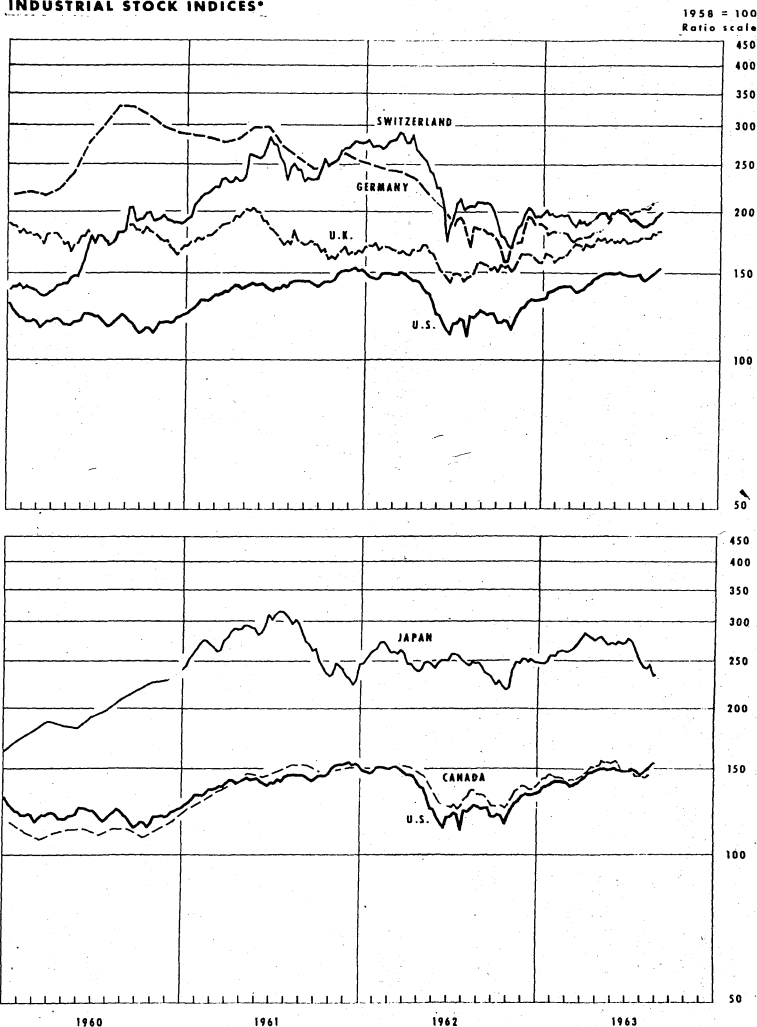


Chart 7.

INDUSTRIAL STOCK INDICES*



*Note: Japan: index of 225 industrial and other stocks traded on the Tokyo exchange.

Chart 8

SPOT EXCHANGE RATES - MAJOR CURRENCIES AGAINST U.S. DOLLAR

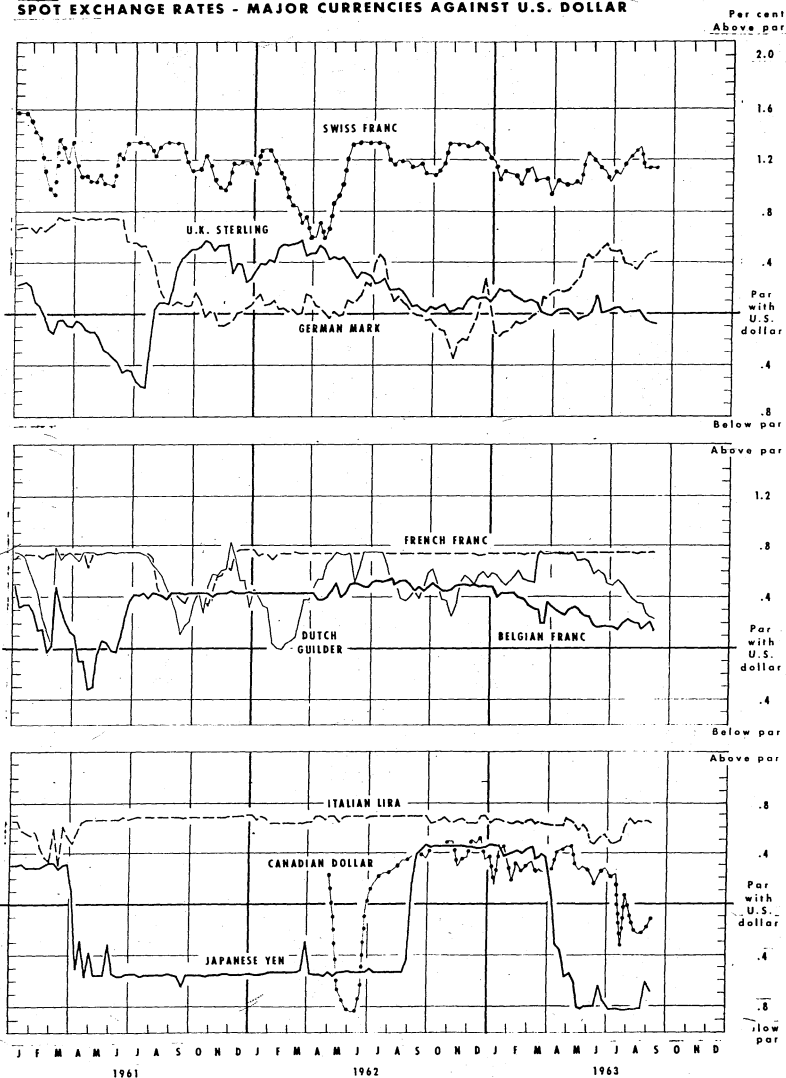


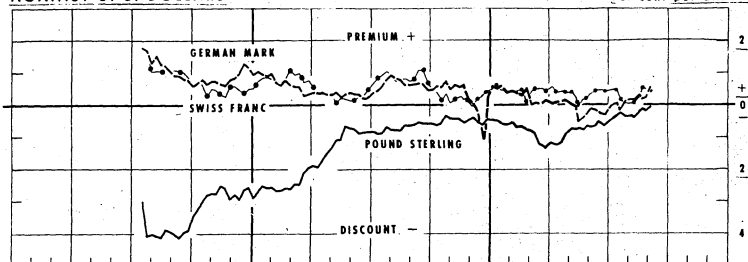
Chart 9

3-MONTH FORWARD EXCHANGE RATE

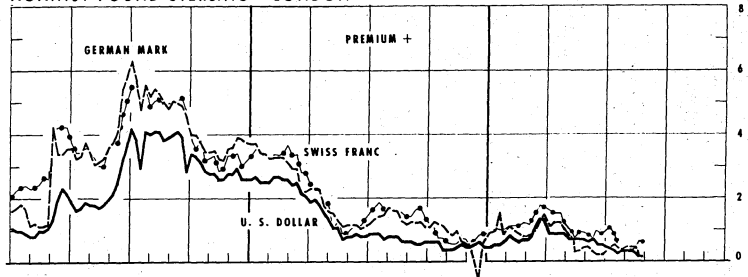
Friday figures

AGAINST U. S. DOLLARS

Per cent per annum



AGAINST POUND STERLING - LONDON



AGAINST POUND STERLING - LONDON

